

Information on Washington's Tax Structure

Farm Use Tax

August 1993

FARMERS AND USE TAX

Many farmers do not realize that use tax is due when machinery and equipment are acquired without payment of Washington's retail sales tax. For example, if a farmer buys a combine from a neighboring farmer, use tax is due.

Unlike other types of businesses, farmers are not generally required to register with the Department of Revenue. For this reason, many farmers are unaware that they may owe use tax.

What is use tax?

Use tax is a tax imposed on the use of tangible personal property in Washington when sales tax has not been paid. It is computed at the same rate as the sales tax. The idea is that machinery and equipment used in this state are subject to either the sales or use tax, but not both, regardless of where or from whom the property is purchased.

When you purchase machinery and equipment from a dealer in this state, you usually pay sales tax to the dealer who in turn pays the tax to the Department of Revenue.

There are many instances where sales tax is not paid. In these situations, use tax is due. The following are examples of when farmers owe use tax:

- Machinery and equipment are purchased from another farmer. Unless that farmer is registered with the Department of Revenue, sales tax will not be collected.
- Machinery and equipment are purchased in another state with no sales tax or in a state with a sales tax rate less than Washington's.
- Machinery and equipment are purchased from a mail order catalog. Many mail order businesses do collect Washington's sales or use tax. However, if the company does not collect either tax, the farmer owes use tax.

Aren't farmers exempt from tax?

Most agricultural activities are exempt from the business and occupation tax. However, exemptions from sales and use tax are limited.

Purchases of feed, seed, fertilizer and spray materials by farmers are not subject to sales or use tax. Also, goods purchased by farmers for resale in the regular course of business are not subject

to sales or use tax. For example, a farmer's purchase of wire for binding hay and alfalfa for sale to others is not subject to sales or use tax.

A farmer's purchase of machinery and equipment is subject to sales or use tax. However, the sales or use tax does not apply to sales of farm machinery and equipment made by or through an auctioneer if the seller is a farmer and the sale is conducted upon a farm.

Do I get credit for equipment I use as a trade-in?

Use tax is computed on the amount due after the value of a "like kind" trade-in is subtracted. For example, if you bought a plow from a dealer in another state and you used another plow as a trade-in, use tax is due on the remaining balance.

If sales or use tax was paid in another state, you may also take a credit for the amount of tax paid against the amount of use tax due in Washington. In order to take the credit, you must have documentation, such as an invoice, of the amount of tax paid.

Is use tax due if I acquire farm equipment when I purchase a farm?

Machinery and equipment are tangible personal property. If you acquire tangible personal property with real property, use tax is due on the value of the personal property.

When completing the Real Estate Excise Tax Affidavit for the County Treasurer, you must indicate the value of the personal property separate from that of the real property.

Do I owe use tax if machinery or equipment is given to me?

Use tax is not due if the person giving you the machinery and equipment has already paid sales or use tax. However, if sales or use tax was not paid by that person, then you owe use tax.

When is use tax due?

Under state law, use tax is due the first time machinery and equipment are used in this state. Generally, first use occurs when machinery and equipment are first acquired or brought into Washington.

How do I report and pay use tax?

Farm vehicles and trailers used on roads must be licensed. The County Auditor of licensing agent will collect the use tax when you license the vehicles.

To pay the tax on machinery and equipment that are not licensed, Use Tax Returns are available from the Department of Revenue.

If you are registered with the Department of Revenue as a business, you may pay use tax under the use tax sections of the Combined Excise Tax Return or you may use the Use Tax Return.

How will the Department of Revenue know if I don't pay the tax?

Department of Revenue employees use the personal property records of the County Assessor's office to locate machinery and equipment on which sales or use tax has not been paid. After a review of the assessor's records, notices are sent to farmers requesting either payment of use tax or verification that sales or use tax has been paid.

How can I prove that sales or use tax has been paid?

Your invoice will prove if sales tax has been paid. By law, purchase documents, such as sales receipts or invoices, must separately state the sales tax from selling price.

To prove you have paid use tax, keep the documentation for all equipment on which you've paid the tax. For example, the use tax return shows if the tax has been paid.

FARMERS AND BUSINESS TAXES

The law defines a "farmer" as a person who produces on his own land or on land for which he has a current right of possession agricultural products for sale.

If you grow agricultural products for wholesale, you are not required to register with the Department of Revenue and you are not subject to the business and occupation (B&O) tax.

However, if you produce agricultural products for sale at retail, you must register with the Department of Revenue. Master Business Applications are available from the Department.

Income derived from retail sales is subject to the Retailing B&O tax classification. In addition, retail sales tax must be collected if the products sold are non-food products. For example, if you sell hay to a riding stable, you are making a retail sale. You owe the Retailing B&O tax and you must collect sales tax from the stable.

IF YOU NEED MORE INFORMATION

The Department of Revenue publishes several administrative rules pertaining to farmers. Washington Administrative Code (WAC) 458-20-102 discusses the use of resale certificates by farmers. WAC 458-20-122 discusses the taxability of various purchases by farmers. The sale of agricultural products is discussed in WAC 458-20-209 and 458-20-210 discusses the taxability of farming operations performed for hire.

Upon request, the Department will provide copies of these rules.